

CITY OF CEDAR HILLS

Financial Statements

June 30, 2005

CITY OF CEDAR HILLS

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor
and Members of the City Council
City of Cedar Hills

We have audited the financial statements of the governmental activities, business-type activities, and major funds, which collectively comprise the financial statements, of the City of Cedar Hills as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and major funds of the City at June 30, 2005, and the changes in the financial position and cash flows, where applicable, of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 3, 2005 on our consideration of the City of Cedar Hills' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The accompanying Management's Discussion and Analysis and the required supplementary information, Modified Approach – Asset Management System and the Budgetary Comparison Schedule, is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the City's financial statements. The individual fund statements and schedules described in the accompanying table of contents are presented for purpose of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

October 3, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Cedar Hills, we offer readers of the City's financial statements this narrative, discussion, overview and analysis of the financial activities of the City of Cedar Hills for the fiscal year ended June 30, 2005.

FINANCIAL HIGHLIGHTS

- The assets of the City of Cedar Hills exceeded the liabilities as of the close of the most recent year by \$35,260,258 (net assets). Of this amount \$2,491,495 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- In the general fund, revenues exceeded expenditures by \$494,000, before inter-fund transfers.
- At the close of the fiscal year, the unreserved fund balance of the general fund totaled \$255,239 or 10% of total general fund revenues. State statutes allow a maximum fund balance of 18% of total general fund revenues.
- The City incurred \$40,240 in capital leases for the purchase of equipment. There was a reduction of outstanding debt of \$394,737. The net decrease in total debt was \$354,497.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's financial statements. The City's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the City, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the City changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*.) The governmental activities of the City include general government and administration, public safety, public works and library. The business-type activities of the City include Water and Sewer, Motor Pool, and the City Golf Course.

Please refer to the table of contents for the location of the government-wide financial statements.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: *governmental funds and proprietary funds*.

GOVERNMENTAL FUNDS

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of government funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and capital projects funds, each of which are considered to be major funds.

The City adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with the budget.

Please refer to the table of contents for the location of the basic governmental fund financial statements.

PROPRIETARY FUNDS

The City maintains three proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, golf course, and motor pool funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer, golf course, and motor pool funds. The water and sewer and the golf course are considered to be major funds of the City. The motor pool fund is an internal service fund providing services to the other funds of the City.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City. Additional fund information for the governmental and the enterprise funds is presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Cedar Hills, assets exceed liabilities by \$35,260,258 (net assets) at the close of the most recent fiscal year.

The majority of the City's net assets (approximately 93%) represent resources that are capital assets or resources subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$2,491,495 may be used to meet the government's ongoing obligations to citizens and creditors.

As of June 30, 2005, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**CITY OF CEDAR HILLS
NET ASSETS**

	Governmental Activities 2005	Business-Type Activities 2005	Total 2005	Total 2004
Current and other assets	\$ 5,739,045	\$ 1,461,012	\$ 7,200,057	\$ 7,166,973
Capital assets	8,904,689	34,834,735	43,739,424	42,661,115
<i>Total assets</i>	<i>\$ 14,643,734</i>	<i>\$ 36,295,747</i>	<i>\$ 50,939,481</i>	<i>\$ 49,828,088</i>
Long-term liabilities outstanding	\$ 779,000	\$ 12,309,629	\$ 13,088,629	\$ 13,726,819
Other liabilities	253,787	2,336,807	2,590,594	2,763,868
<i>Total liabilities</i>	<i>\$ 1,032,787</i>	<i>\$ 14,646,436</i>	<i>\$ 15,679,223</i>	<i>\$ 16,490,687</i>
Net Assets				
Invested in capital assets, net of related debt	\$ 8,050,689	\$ 19,330,501	\$ 27,381,190	\$ 26,414,501
Restricted	4,234,249	1,153,324	5,387,573	5,006,026
Unrestricted	1,326,009	1,165,486	2,491,495	1,916,874
<i>Total net assets</i>	<i>\$ 13,610,947</i>	<i>\$ 21,649,311</i>	<i>\$ 35,260,258</i>	<i>\$ 33,337,401</i>

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net assets by \$1,978,268.

The City of Cedar Hills has no significant new fees; however, a greater percentage of residents were charged for Pressurized Irrigation Usage. Revenue from charges for services increased due to the growing population. Golf course charges for services also increased by \$127,857.

Property tax collections decreased 5% from \$489,840 in 2004 to \$464,866 in 2005. The decrease is a result of the reduction in the certified tax rate.

Sales & Use Tax collections increased 15% from \$319,340 in 2004 to \$367,099 in 2005.

CITY OF CEDAR HILLS
NET ASSETS

	Governmental Activities 2005	Business-Type Activities 2005	Total 2005	Total 2004
Revenues				
Program revenues				
Charges for Services	\$ 1,184,479	\$ 2,064,141	\$ 3,248,620	\$ 2,686,444
Operating grants & contributions	150,057		150,057	180,011
Capital grants & contributions	1,538,021	520,472	2,058,493	1,767,384
General revenues				
Property taxes	464,866		464,866	489,840
Sales	367,099		367,099	319,340
Franchise	221,327		221,327	156,179
Interest income	132,555	30,450	163,005	100,457
Gain/(loss) on asset sales	2,928		2,928	(3,311)
Miscellaneous	34,143		34,143	49,470
Transfers	(14,829)	14,829		
Total Revenues and Transfers	\$ 4,080,646	\$ 2,629,892	\$ 6,710,538	\$ 5,745,814
Expenses				
General government	\$ 1,454,474		\$ 1,454,474	\$ 1,254,435
Public safety	366,317		366,317	235,382
Parks and recreation	236,627		236,627	219,399
Interest on long-term debt	44,960		44,960	71,944
Sewer and water		\$ 1,365,810	1,365,810	1,206,424
Golf course		1,319,493	1,319,493	1,126,047
Total government expenses	\$ 2,102,378	\$ 2,685,303	\$ 4,787,681	\$ 4,113,631
Change in net assets	\$ 1,978,268	\$ (55,411)	\$ 1,922,857	\$ 1,747,129
Net assets - beginning	11,632,679	21,704,722	33,337,401	31,590,272
Net assets - ending	\$ 13,610,947	\$ 21,649,311	\$ 35,260,258	\$ 33,337,401

LONG-TERM DEBT

The City of Cedar Hills has no General Obligation Debt as of June 30, 2005. The City has two lease revenue bonds, an excise road tax bond, and three capital leases.

One of the lease revenue bonds was obtained in 1999 in the amount of \$790,000 for the construction of the Public Safety Building which currently serves as the City Hall and the City's Fire Station. The current principal balance on this bond is \$630,000.

The other lease revenue bond was obtained in 2001 in the amount of \$6,427,000 for the construction of the City's Golf Course. This bond is secured by the golf course. It is anticipated that this bond will be refinanced before the final balloon payment in November 2007.

The excise tax road bond was obtained in 2000 in the amount of \$390,000 for the widening of the west end of Cedar Hills Drive and the construction of a roundabout at 4600 West and Cedar Hills Drive. This bond is secured by Class B&C Road revenues that the City receives from the state on a quarterly basis. The current principal balance of this bond is \$224,000.

The City also obtained a Line of Credit in the amount of \$6,000,000 in 2003 for the construction of a citywide Pressurized Irrigation system. The source of payment on this line of credit is water fees paid by residents of the City. The line of credit is secured by the Pressurized Irrigation system. The current principal balance on the line of credit is \$5,841,391. It is anticipated that the City will obtain a bond in order to refinance this line of credit in the next 1-2 years.

Additional information on the City's long-term debt can be found in the notes to the financial statements.

BUSINESS-TYPE ACTIVITIES

Business-Type Activities decreased the City's net assets by \$55,411. For detail, see Statement of Revenues, Expenses, and Changes in Net Assets attached.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the year, the City of Cedar Hills' governmental fund reported combined ending fund balances of \$5,573,368. Approximately 24 percent of this amount, \$1,339,119, constitutes

unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay for debt service \$311,154 and 2) to pay for capital projects \$3,923,095.

The general fund is the chief operating fund of the City. At the end of the current year, unreserved fund balance of the general fund was \$255,239. Total fund balance was \$566,393. As a measure of the general fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Unreserved fund balance represents approximately 12 percent of the total general fund expenditures.

PROPRIETARY FUNDS

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the respective proprietary funds are Water and Sewer \$2,062,481, Golf Course (\$896,995), and Motor Pool Fund \$0.

BUDGETARY HIGHLIGHTS

The difference between the original general fund budget and the final general fund amended budget was \$209,358. This may be summarized as follows:

- \$20,000 increase in the City Recorder Department
- \$15,500 increase in Building and Zoning Department
- \$50,000 increase in streets
- \$20,000 increase in solid waste
- \$34,858 increase in general government
- \$69,000 increase in other uses

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The capital projects fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities and procuring equipment necessary for providing programs for the citizens of the City.

Major capital asset events during the current year included the following:

- \$750,000 for the acquisition of Hayes/Savage park land
- \$68,326 for Cottonwood Drive
- \$459,348 for storm drain expansion

The City has elected to use the modified approach to account for its infrastructure assets such as roads. It is the City's policy to maintain their roads with an average remaining service life of 9 years or greater. The most recent condition assessment showed the average remaining service life to be 10 years. That information can be found in the required supplemental information following the notes to the financial statements.

CITY OF CEDAR HILLS
Capital Assets (Net of Depreciation)

	Governmental Activities 2005	Business-Type Activities 2005	Total 2005	Total 2004
Land	\$3,394,994	\$3,425,699	\$6,820,693	\$6,024,393
Buildings	2,952,663		2,952,663	3,042,771
Equipment	6,907		6,907	8,928
Golf Course Improvements		7,630,574	7,630,574	7,873,474
Infrastructure	2,451,415		2,451,415	2,269,422
Sewer improvements		7,459,113	7,459,113	7,104,158
Water improvements		13,121,859	13,121,859	13,274,333
Vehicles	98,710	18,146	116,856	117,021
	<u>\$8,904,689</u>	<u>\$31,655,391</u>	<u>\$40,560,080</u>	<u>\$39,714,500</u>

Additional information on the City of Cedar Hills' capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonded debt outstanding of \$7,281,000, notes payable of \$200,245, a line of credit of \$5,841,391 and capital leases totaling \$416,481, for total long term debt outstanding of \$13,739,117. Refer to long-term debt notes for information on how the debt is secured.

City of Cedar Hills OUTSTANDING DEBT

	Governmental Activities 2005	Business-Type Activities 2005	Total 2005	Total 2004
Revenue Bonds	\$854,000	\$6,427,000	\$7,281,000	\$7,353,000
Notes Payable	\$0	\$200,245	\$200,245	\$263,227
Line of Credit	\$0	\$5,841,391	\$5,841,391	\$6,000,000
Capital Leases	\$0	\$416,481	\$416,481	\$477,387
Total	<u>\$854,000</u>	<u>\$12,885,117</u>	<u>\$13,739,117</u>	<u>\$14,093,614</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to 12 percent of its total fair market value of taxable property in the City. The current general obligation debt limitation for the City is \$29,251,337. The City of Cedar Hills has no general obligation debt.

Additional information on the City's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The City of Cedar Hills is located in Utah County. The unemployment rate for Utah County as of October 2005 was 3.9%. This is lower than the state unemployment rate (4.5%) for the same period.
- Interest rates have climbed this year and continue to rise. This will increase interest earnings for fiscal year 2005.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of The City of Cedar Hills' finances for anyone with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Cedar Hills, City Manager, 3925 West Cedar Hills Drive, Cedar Hills, Utah 84062.

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FINANCIAL STATEMENTS

The financial statements include integrated sets of financial statements as required by accounting principles generally accepted in the United States of America. The statements include:

- Government-wide financial statements

- Fund financial statements

 - Governmental funds

 - Proprietary (enterprise) funds

CITY OF CEDAR HILLS
Government-wide Statement of Net Assets
June 30, 2005
With Comparative Totals for June 30, 2004

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	2004 Total
ASSETS				
Cash and cash equivalents	\$ 796,190	\$ 23,001	\$ 819,191	\$ 1,569,889
Receivables (net of allowance)				
Accounts		143,953	143,953	139,057
Intergovernmental	123,817		123,817	127,039
Garbage billings	29,487		29,487	45,549
Other	104,555		104,555	155,704
Restricted cash and cash equivalents	4,684,996	1,294,058	5,979,054	5,129,735
Capital assets				
Land	3,394,994	3,379,399	6,774,393	6,024,393
Buildings	3,340,177		3,340,177	2,603,576
Equipment	148,048		148,048	128,274
Golf course improvements		8,124,156	8,124,156	8,083,916
Infrastructure	2,451,415		2,451,415	3,006,023
Sewer improvements		8,613,976	8,613,976	8,097,077
Water improvements		14,577,480	14,577,480	14,426,244
Vehicles		37,868	37,868	37,868
Accumulated depreciation	(429,945)	(3,077,488)	(3,507,433)	(2,692,871)
Water stock		3,119,511	3,119,511	2,881,761
Bond costs, net		59,833	59,833	64,854
Total assets	<u>\$ 14,643,734</u>	<u>\$ 36,295,747</u>	<u>\$ 50,939,481</u>	<u>\$ 49,828,088</u>
LIABILITIES				
Accounts payable and accrued expenses	\$ 115,784	\$ 176,944	\$ 292,728	\$ 547,732
Accrued salaries, wages, and benefits	31,304		31,304	49,111
Accrued interest payable	13,110	52,005	65,115	65,946
Other payables	18,589		18,589	
Deposits		895,009	895,009	771,512
Development agreements payable		637,361	637,361	957,992
Noncurrent liabilities				
Due within one year	75,000	575,488	650,488	371,575
Due in more than one year	779,000	12,309,629	13,088,629	13,726,819
Total liabilities	<u>\$ 1,032,787</u>	<u>\$ 14,646,436</u>	<u>\$ 15,679,223</u>	<u>\$ 16,490,687</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 8,050,689	\$ 19,330,501	\$ 27,381,190	\$ 26,414,501
Reserved for				
Capital projects	3,923,095	652,930	4,576,025	4,021,406
Class C Roads	311,154		311,154	244,768
Debt service		500,394	500,394	739,852
Unreserved	1,326,009	1,165,486	2,491,495	1,916,874
Total net assets	<u>\$ 13,610,947</u>	<u>\$ 21,649,311</u>	<u>\$ 35,260,258</u>	<u>\$ 33,337,401</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CITY OF CEDAR HILLS
Government-wide Statement of Activities
For the Year Ended June 30, 2005
With Comparative Totals for
the Year Ended June 30, 2004

Program Activities	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 1,454,474	\$ 1,150,108	\$ 150,057	\$ 265,760
Public safety	366,317			120,902
Parks and recreation	236,627	34,371		1,151,359
Interest on long term debt	44,960			
Total governmental activities	<u>2,102,378</u>	<u>1,184,479</u>	<u>150,057</u>	<u>1,538,021</u>
Business-type activities				
Sewer and water	1,365,810	1,353,378		520,472
Golf course	1,319,493	710,763		
Total business-type activities	<u>2,685,303</u>	<u>2,064,141</u>		<u>520,472</u>
Total government	<u>\$ 4,787,681</u>	<u>\$ 3,248,620</u>	<u>\$ 150,057</u>	<u>\$ 2,058,493</u>
General revenues				
Taxes				
Ad valorem				
Sales				
Franchise				
Interest income				
Gain (loss) on sale/retirement of capital assets				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets at beginning of year				
Net assets at end of year				

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Net (Expenses) Revenues and Changes in Net Assets			
Governmental Activities	Business-type Activities	Total	2004 Total
\$ 111,451		\$ 111,451	\$ 167,544
(245,415)		(245,415)	(99,372)
949,103		949,103	873,310
(44,960)		(44,960)	(71,944)
770,179		770,179	869,538
	\$ 508,040	508,040	308,757
	(608,730)	(608,730)	(543,141)
	(100,690)	(100,690)	(234,384)
770,179	(100,690)	669,489	635,154
464,866		464,866	489,840
367,099		367,099	319,340
221,327		221,327	156,179
132,555	30,450	163,005	100,457
2,928		2,928	(3,311)
34,143		34,143	49,470
(14,829)	14,829		
1,208,089	45,279	1,253,368	1,111,975
1,978,268	(55,411)	1,922,857	1,747,129
11,632,679	21,704,722	33,337,401	31,590,272
\$ 13,610,947	\$ 21,649,311	\$ 35,260,258	\$ 33,337,401

**CITY OF CEDAR HILLS
GOVERNMENTAL FUNDS**

Balance Sheet

June 30, 2005

With Comparative Totals for June 30, 2004

	General	Capital Projects	Total Governmental Funds	2004 Total
ASSETS				
Cash and cash equivalents	\$ 99,390	\$ 696,800	\$ 796,190	\$ 859,277
Receivables (net of allowance)				
Deposits	62		62	62
Intergovernmental	123,817		123,817	127,039
Garbage billings	29,487		29,487	45,549
Other	104,493		104,493	155,642
Restricted cash and cash equivalents	311,154	4,373,842	4,684,996	3,941,204
 Total assets	<u>\$ 668,403</u>	<u>\$ 5,070,642</u>	<u>\$ 5,739,045</u>	<u>\$ 5,128,773</u>
 LIABILITIES AND FUND BALANCE				
Liabilities				
Checks in excess of deposits				\$ 142,046
Accounts payable and accrued expenses	\$ 52,117	\$ 63,667	\$ 115,784	407,210
Accrued salaries, wages, and benefits	31,304		31,304	49,111
Other payables	18,589		18,589	
Total liabilities	<u>102,010</u>	<u>63,667</u>	<u>165,677</u>	<u>598,367</u>
 Fund Balance				
Reserved for				
Capital projects		3,923,095	3,923,095	3,379,629
Class C Roads	311,154		311,154	244,768
Unreserved	255,239	1,083,880	1,339,119	906,009
Total fund balance	<u>566,393</u>	<u>5,006,975</u>	<u>5,573,368</u>	<u>4,530,406</u>
 Total liabilities and fund balance	<u>\$ 668,403</u>	<u>\$ 5,070,642</u>	<u>\$ 5,739,045</u>	<u>\$ 5,128,773</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CITY OF CEDAR HILLS
Reconciliation of the Governmental Funds Balance Sheet to the
Government-wide Statement of Net Assets
June 30, 2005

Total fund balance - total governmental funds	\$ 5,573,368
Amounts reported for governmental activities in the Government-wide Statement of Net Assets are different due to the following:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	8,904,689
Interest payable, but not yet due, on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the governmental funds balance sheet.	(13,110)
Long term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	
Due within one year	(75,000)
Due in more than one year	<u>(779,000)</u>
Net assets of governmental activities	<u><u>\$ 13,610,947</u></u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CITY OF CEDAR HILLS
GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2005
With Comparative Totals for
the Year Ended June 30, 2004

	General	Capital Projects	Total Governmental Funds	2004 Total
Revenues				
Taxes	\$ 1,053,292		\$ 1,053,292	\$ 965,359
Licenses and permits	546,160		546,160	521,704
Impact fees		\$ 1,427,775	1,427,775	1,422,788
Intergovernmental	197,671		197,671	180,011
Charges for services	603,948		603,948	507,031
Other fees and services	34,371		34,371	19,165
Miscellaneous	34,143		34,143	49,470
Developer contributions		62,632	62,632	
Interest income	31,308	101,247	132,555	75,310
Total revenues	<u>2,500,893</u>	<u>1,591,654</u>	<u>4,092,547</u>	<u>3,740,838</u>
Expenditures				
General government	1,176,336		1,176,336	1,089,925
Highways and streets	236,503	131,994	368,497	543,225
Public safety	366,317		366,317	235,382
Parks and recreation	174,782	753,584	928,366	662,617
Debt service				
Principal	37,000	35,000	72,000	70,000
Interest	15,555	30,201	45,756	56,599
Total expenditures	<u>2,006,493</u>	<u>950,779</u>	<u>2,957,272</u>	<u>2,657,748</u>
Excess of revenues over expenditures	<u>494,400</u>	<u>640,875</u>	<u>1,135,275</u>	<u>1,083,090</u>
Other financing sources (uses)				
Transfers in	15,955	159,719	175,674	730,217
Transfers out	(267,987)		(267,987)	(2,151,597)
Total other financing sources (uses)	<u>(252,032)</u>	<u>159,719</u>	<u>(92,313)</u>	<u>(1,421,380)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>242,368</u>	<u>800,594</u>	<u>1,042,962</u>	<u>(338,290)</u>
Fund balance, beginning of year	<u>324,025</u>	<u>4,206,381</u>	<u>4,530,406</u>	<u>4,868,696</u>
Fund balance, end of year	<u>\$ 566,393</u>	<u>\$ 5,006,975</u>	<u>\$ 5,573,368</u>	<u>\$ 4,530,406</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CITY OF CEDAR HILLS
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

Net change in fund balances - total governmental funds	\$ 1,042,962
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Amounts reported for governmental activities in the Statement of Activities are different due to the following:

Governmental funds report capital outlay as expenditures. However, in the Government-wide Statement of Activities and Changes in Net Assets, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	931,993
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Depreciation expense on capital assets is reported in the Government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(92,129)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	72,000
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Accrued interest expense on long-term debt is reported in the Government-wide Statement of Activities and Changes in Net Assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds.	796
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Internal service funds are used by management to charge the costs of vehicle fleet activities. The net activity of certain internal service funds is reported with governmental activities.	<u>22,646</u>
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Change in net assets of governmental activities	<u><u>\$ 1,978,268</u></u>
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SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

**CITY OF CEDAR HILLS
PROPRIETARY FUNDS
Statement of Net Assets**

June 30, 2005

With Comparative Totals for June 30, 2004

	Business Type Activities - Enterprise Funds			2004 Total (Enterprise)
	Sewer and Water Fund	Golf course Fund	Totals	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 371,028		\$ 371,028	\$ 1,074,143
Accounts receivable, net of allowance	143,292	\$ 661	143,953	139,057
Total current assets	514,320	661	514,981	1,213,200
Noncurrent assets				
Capital assets				
Land		3,379,399	3,379,399	3,379,399
Golf course improvements		8,124,156	8,124,156	8,083,916
Sewer improvements	8,613,976		8,613,976	8,097,077
Water improvements	14,577,480		14,577,480	14,426,244
Vehicles				\$ 173,788
Less: accumulated depreciation	(2,610,482)	(447,285)	(3,057,767)	(56,931)
Total capital assets	20,580,974	11,056,270	31,637,244	31,631,364
Water stock	3,119,511		3,119,511	2,881,761
Restricted cash and cash equivalents	793,664	500,394	1,294,058	1,188,531
Bond costs, net	59,833		59,833	64,854
Total noncurrent assets	24,553,982	11,556,664	36,110,646	35,766,510
Total assets	\$ 25,068,302	\$ 11,557,325	\$ 36,625,627	\$ 116,857
LIABILITIES				
Current liabilities				
Outstanding checks in excess of deposits		\$ 348,027	\$ 348,027	\$ 209,765
Accounts payable and accrued expenses	\$ 155,613	21,331	176,944	140,522
Accrued interest payable	24,101	27,904	52,005	52,040
Deposits	895,009		895,009	771,512
Development agreements payable	637,361		637,361	957,992
Long-term debt current portion	198,448	373,354	571,802	\$ 3,686
Total current liabilities	1,910,532	770,616	2,681,148	3,686
Long-term liabilities				
Bonds payable		6,427,000	6,427,000	6,427,000
Notes payable	6,033,824	416,481	6,450,305	7,812
Less: current portion	(198,448)	(373,354)	(571,802)	(3,686)
Total long-term liabilities	5,835,376	6,470,127	12,305,503	4,126
Total liabilities	\$ 7,745,908	\$ 7,240,743	\$ 14,986,651	\$ 7,812
NET ASSETS				
Invested in capital assets, net of related debt	\$ 14,606,983	\$ 4,713,183	\$ 19,320,166	\$ 109,045
Reserved				
Capital assets	652,930		652,930	324,970
Debt service		500,394	500,394	739,852
Unreserved	2,062,481	(896,995)	1,165,486	1,346,987
Total net assets	\$ 17,322,394	\$ 4,316,582	21,638,976	\$ 109,045
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with the business type activities.				
			10,335	(1,482)
Net assets of business-type activities			\$ 21,649,311	\$ 21,704,722

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CITY OF CEDAR HILLS
PROPRIETARY FUNDS
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2005
With Comparative Totals for
the Year Ended June 30, 2004

	Business Type Activities - Enterprise Funds				2004
	Sewer and Water Fund	Golf course Fund	Totals	Motor Pool Fund	Total (Enterprise)
Operating revenues					
Charges for services	\$ 1,353,378	\$ 710,763	\$ 2,064,141	\$ 89,301	\$ 1,638,545
Total operating revenues	<u>1,353,378</u>	<u>710,763</u>	<u>2,064,141</u>	<u>89,301</u>	<u>1,638,545</u>
Operating expenses					
Salaries, wages, and employee benefits	287,780	261,284	549,064		528,365
Supplies and materials	149,426	398,729	548,155		411,196
Professional and technical	34,591		34,591		9,700
Vehicle maintenance				29,921	
Depreciation and amortization	470,674	236,843	707,517	27,591	662,299
Other	198,635	73,741	272,376		270,570
Total operating expenses	<u>1,141,106</u>	<u>970,597</u>	<u>2,111,703</u>	<u>57,512</u>	<u>1,882,130</u>
Operating income (loss)	<u>212,272</u>	<u>(259,834)</u>	<u>(47,562)</u>	<u>31,789</u>	<u>(243,585)</u>
Non-operating income (expense)					
Interest income	14,452	15,998	30,450		25,147
Interest expense	(224,704)	(348,896)	(573,600)	(254)	(450,341)
Gain on sale of capital assets				2,928	
Total non-operating income (expense)	<u>(210,252)</u>	<u>(332,898)</u>	<u>(543,150)</u>	<u>2,674</u>	<u>(425,194)</u>
Income (loss) before capital contributions and operating transfers	2,020	(592,732)	(590,712)	34,463	(668,779)
Capital contributions	520,472		520,472		5,832,697
Operating transfers					
Transfers in		60,000	60,000		
Transfers out	<u>(56,988)</u>		<u>(56,988)</u>		<u>(57,209)</u>
Net income (loss)	465,504	(532,732)	(67,228)	34,463	5,106,709
Net assets at beginning of year	<u>16,856,890</u>	<u>4,849,314</u>		<u>74,582</u>	
Net assets at end of year	<u>\$ 17,322,394</u>	<u>\$ 4,316,582</u>		<u>\$ 109,045</u>	
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds are reported with business-type activities.			11,817		(15,225)
Change in net assets of business-type activities			<u>\$ (55,411)</u>		<u>\$ 5,091,484</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CITY OF CEDAR HILLS
PROPRIETARY FUNDS
Statement of Cash Flows
For the Year Ended June 30, 2005
With Comparative Totals for June 30, 2004

	Business-Type Activities Enterprise Funds			Motor	2004
	Sewer and	Golf	Totals	Pool Fund	Total
	Water	Course			(Enterprise)
Cash flows from operating activities					
Cash received from					
Customers	\$ 1,456,345	\$ 726,397	\$ 2,182,742		\$ 1,598,997
Other				\$ 89,301	
Cash paid to/for					
Employees	(287,780)	(261,284)	(549,064)		(528,365)
Timpanogos Special Service District	(169,764)		(169,764)		(117,777)
Suppliers	(500,740)	(468,827)	(969,567)	(29,921)	(592,516)
Net cash provided by (used for) operating activities	498,061	(3,714)	494,347	59,380	360,339
Cash flows from noncapital financing activities					
Cash paid from other funds		60,000			
Cash paid to other funds	(56,988)		(56,988)		(57,209)
Net cash provided by (used for) noncapital financing activities	(56,988)	60,000	(56,988)		(57,209)
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(733,725)		(733,725)	(40,454)	(1,980,601)
Developer contributions					114,946
Impact fees	983,191		983,191		1,031,725
Impact fees paid	(634,880)		(634,880)		(687,129)
Proceeds from sales of capital assets				15,955	
Principal payments on debt	(203,464)	(101,146)	(304,610)	(22,907)	(135,717)
Interest paid on debt	(224,777)	(348,858)	(573,635)	(254)	(398,301)
Net cash used for capital related financing activities	(813,655)	(450,004)	(1,263,659)	(47,660)	(2,055,077)
Cash flows from investing activities					
Interest income	14,452	15,998	30,450		25,147
Net cash provided by investing activities	14,452	15,998	30,450		25,147
Net increase (decrease) in cash	(358,130)	(377,720)	(735,850)	11,720	(271,168)
Cash and cash equivalents, at beginning of year	1,522,822	530,087	2,052,909	(11,720)	2,324,077
Cash and cash equivalents, at end of year	\$ 1,164,692	\$ 152,367	\$ 1,317,059	\$ - 0 -	\$ 2,052,909
Cash and cash equivalents	\$ 371,028		\$ 371,028		\$ 1,074,143
Cash and cash equivalents, restricted	793,664	\$ 500,394	1,294,058		1,188,531
Checks in excess of deposits		(348,027)	(348,027)		(209,765)
Total	\$ 1,164,692	\$ 152,367	\$ 1,317,059	\$ - 0 -	\$ 2,052,909

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CITY OF CEDAR HILLS
PROPRIETARY FUNDS
Statement of Cash Flows
For the Year Ended June 30, 2005
With Comparative Totals for June 30, 2004
(Continued)

	Business-Type Activities Enterprise Funds			Motor	2004
	Sewer and	Golf	Totals	Pool Fund	Total
	Water	Course			(Enterprise)
Reconciliation to operating income					
Operating income (loss)	\$ 212,272	\$ (259,834)	\$ (47,562)	\$ 31,789	\$ (243,585)
Adjustments to reconcile operating income (loss)					
to net cash provided (used) by operating activities					
Depreciation and amortization	470,674	236,843	707,517	27,591	662,299
Changes in assets and liabilities					
Decrease (increase) in accounts receivable	(20,530)	15,634	(4,896)		(39,548)
Decrease (increase) in assessments receivable					3,393
Increase (decrease) in accounts payable	32,779	3,643	36,422		(6,686)
Increase (decrease) in due to other agencies					(43,926)
Increase (decrease) in deferred revenue					(3,393)
Increase (decrease) in refundable deposits	123,497		123,497		210,511
Increase (decrease) in developer payables	(320,631)		(320,631)		(178,726)
Net cash provided by (used for) operating activities	<u>\$ 498,061</u>	<u>\$ (3,714)</u>	<u>\$ 494,347</u>	<u>\$ 59,380</u>	<u>\$ 360,339</u>

Non-cash investing, capital and financing activities

The City financed the purchase of \$40,240 of equipment with capital leases.

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

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NOTES TO FINANCIAL STATEMENTS

The notes to the financial statements are included to provide information that is essential to a user's understanding of the financial statements.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Cedar Hills ("The City") have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case GASB prevails. The more significant government accounting policies followed by the City are described below.

Reporting Entity

The City was incorporated under the laws of the State of Utah in October 31, 1977. The City operates under a Council-Mayor form of government and provides the following broad range of services to citizens: general administrative services, sanitation, public safety, highways and streets, recreation and parks, public improvements, planning, zoning, water and sewer utilities, and golf course services. The financial statements include all funds and activities that are financially accountable to the City as described in GASB Statement 39.

Blended Component Unit

The Municipal Building Authority was created by the City during fiscal year 1999 and is governed by the City's Mayor and Council. The Authority used the proceeds of its tax exempt bonds to finance the construction of general capital assets for the City. The bonds are secured by a lease agreement with the City and will be retired through lease payments from the City. The financial statements of the Municipal Building Authority are included in the accompanying financial statements as a capital projects fund, a blended component unit.

Principles Used in Determining Scope of Reporting Entity

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Cedar Hills. The financial statements of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board. Based on the foregoing criteria, the financial statements of Timpanogos Special Service District is excluded from the accompanying financial statements because the entity is autonomous and has a self-elected board of directors responsible for its operations and the hiring of its management personnel. The City pays Timpanogos Special Service District for its share of services received. Timpanogos Special Service District receives payments from other nearby cities receiving these same services. The City collects impact fees on behalf of Timpanogos Special Service District and then remits them back to the District.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities.

Governmental funds are those funds through which most of the governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Capital Projects Fund

The Capital Projects Fund is used to account for funds received and expended for the acquisition or construction of capital facilities, improvements, and equipment (other than those financed by proprietary funds).

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

Sewer and Water Fund

The Sewer and Water Fund is used to account for the provision of sewer and water services to the residents of the City. Activities of the fund include administration, operations and maintenance of the sewer and water system, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of long-term debt, and capital improvements. Costs are financed through charges to utility customers.

Golf Course Fund

The Golf Course Fund is used to account for the activity of the golf course and the accumulation of resources for, and the payment of long-term debt. Costs are financed through charges to golf course customers.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods or services in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, materials and supplies, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City also has an internal service fund which is accounted for like proprietary funds using the economic resources measurement focus.

Motor Pool Fund

The Motor Pool Fund is used to account for the operation and maintenance of vehicles provided by one department to other departments of the City on a cost measurement basis. The fund activities are reported on the proprietary fund statements, and based on their use, are appropriately allocated between governmental and business-type activities on the government-wide statements.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers amounts collected within 60 days after year end to be available. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Budgetary Control

Budgets are prepared for City funds on the cash basis while the modified accrual or accrual basis is used to account and prepare fund financial reports.

The City Council approves by resolution the total budget appropriation by fund. Any revisions that alter the total appropriations of any fund must be approved by the City Council. A public hearing is held anytime an increase in total appropriations is made. The budget was amended in fiscal year 2005. Unused appropriations for all of the annually budgeted funds lapse at the end of the year.

Cash and Cash Equivalents

City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents for reporting purposes in the Statement of Cash Flows for the Proprietary Funds.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts. Sick leave accrues to full-time permanent employees to specified maximums. Employees are entitled to a percentage of their sick leave balance and all accrued vacation leave upon termination.

Property Taxes

Property taxes attach an enforceable lien on property as of January 1. Taxes are levied and tax notices are sent on November 1. All unpaid taxes are due and become delinquent on November 30. Property tax revenues are recognized by the City when they are collected. Property taxes and fees on licensed motor vehicles are collected on a monthly basis in the month in which the individual motor vehicle license is renewed. Property taxes are billed and collected by Utah County on behalf of the City and remitted to the City monthly. At June 30, 2005, only delinquent taxes are uncollected. The amount of collectible delinquent taxes at June 30, 2005 is not considered significant.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at June 30, 2005 and revenues and expenses during the year then ended. The actual results could differ from those estimates.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for the proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment in the governmental funds.

Assets, having an original cost of \$10,000 or more are capitalized. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	50 years
Improvements other than buildings	30 – 50 years
Machinery and equipment	6 – 20 years
Infrastructure	50 years

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

The City has adopted an allowable alternative to reporting depreciation for its road network. Under this alternative method, referred to as the “modified approach,” the City must maintain an asset management system and demonstrate that its roads are being preserved at or above condition levels established by City policy. Infrastructure assets accounted for under the modified approach are not depreciated, and maintenance and preservation costs are expensed.

Transactions Between Funds

Legally authorized transfers are treated as inter-fund transfers and are included in the results of operations in both Governmental and Proprietary Funds.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City first utilizes restricted resources to finance qualifying activities.

NOTE 2 – CASH AND CASH EQUIVALENTS

The City follows the requirements of the Utah Money Management Act (*Utah Code Annotated* 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the City to deposit funds in a “qualified depository.” The Act defines “qualified depository” as any financial institution whose deposits are insured by an agency of the Federal Government which has been certified by the Utah Commissioner of Financial Institutions as meeting the requirements of the Act, and who adheres to the rules of the Utah Money Management Council. No deposits are collateralized, nor are they required to be by State statute.

The State Treasurer’s Pool is a pooled investment fund managed by the Utah State Treasurer. The degree of risk associated with the investments held by the State Treasurer’s Pool depends on the underlying portfolio. Therefore, these amounts are not categorized according to risk. The summary of investments provided by the State Treasurer shows pooled investments in commercial paper, certificates of deposit, corporate notes, US Treasury obligations, and obligations of the agencies of the United States. The investments are stated at fair value.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

The City's deposits and investments are categorized in the following table to give an indication of the level of risk assumed by the City at year end. Category 1 includes deposits and investments that are insured or collateralized with securities held by the City or its agent in the City's name. Category 2 includes deposits and investments that are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. Category 3 includes deposits and investments that are uninsured and uncollateralized, including any bank balance that is collateralized with securities, held by the pledging financial institution or its trust department or agent but not in the City's name.

	Categories			Bank	Carrying
	1	2	3	Balance	Amount
Deposits and investments					
Cash and cash equivalents	\$ 179,544		\$ 180,461	\$ 360,005	\$ 397,643
Trust cash and cash equivalents	175,858		400,394	576,252	576,252
State Treasurer's Pool				5,824,350	5,824,350
Total	<u>\$ 355,402</u>	<u>\$ - 0 -</u>	<u>\$ 580,855</u>	<u>\$ 6,760,607</u>	<u>\$ 6,798,245</u>
Cash and cash equivalents					\$ 819,191
Cash and cash equivalents, restricted					5,979,054
Total					<u>\$ 6,798,245</u>

The balances above include \$5,979,054 of restricted and designated cash. The City has \$591,481 designated for capital improvements, \$311,154 restricted for C roads, \$4,576,025 restricted for impact fees, and \$500,394 restricted for debt service.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	Primary Government		
	Beginning Balance	Increases	Decreases
Governmental activities:			
Capital assets not being depreciated:			
Land and improvements	\$ 2,644,994	\$ 750,000	
Road network	2,269,422	181,993	
Total capital assets not being depreciated	<u>4,914,416</u>	<u>931,993</u>	<u>5,846,409</u>
Other capital assets:			
Buildings and improvements	3,340,177		
Vehicles	116,146	40,454	\$ (20,680)
Equipment	12,128		
Total other capital assets at historical cost	<u>3,468,451</u>	<u>40,454</u>	<u>(20,680)</u>
Less accumulated depreciation for:			
Buildings and improvements	(297,406)	(90,108)	
Vehicles	(23,582)	(21,281)	7,653
Equipment	(3,200)	(2,021)	
Total accumulated depreciation	<u>(324,188)</u>	<u>(113,410)</u>	<u>7,653</u>
Other capital assets, net	<u>3,144,263</u>	<u>(72,956)</u>	<u>(13,027)</u>
Governmental activities capital assets, net	<u>\$ 8,058,679</u>	<u>\$ 859,037</u>	<u>\$ (13,027)</u>

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 3 – CAPITAL ASSETS (CONTINUED)

	Primary Government		
	Beginning Balance	Increases	Decreases
			Ending Balance
Business-type activities:			
Capital assets not being depreciated:			
Land and improvements	\$ 3,425,699		\$ 3,425,699
Total capital assets not being depreciated	3,425,699		3,425,699
Other capital assets:			
Buildings and improvements	30,560,937	\$ 708,375	31,269,312
Vehicles	37,868		37,868
Total other capital assets at historical cost	30,598,805	708,375	31,307,180
Less accumulated depreciation for:			
Buildings and improvements	(2,355,272)	(702,494)	(3,057,766)
Vehicles	(13,411)	(6,311)	(19,722)
Total accumulated depreciation	(2,368,683)	(708,805)	(3,077,488)
Other capital assets, net	28,230,122	(430)	28,229,692
Business-type activities capital assets, net	\$ 31,655,821	\$ (430)	\$ 31,655,391
Governmental activities depreciation expense:			
General government			\$ 55,150
Parks and recreation			58,260
Total governmental activities depreciation expense			\$ 113,410
Business-type activities depreciation expense:			
Water and sewer			\$ 465,651
Vehicle service			6,311
Golf course			236,843
Total business-type activities depreciation expense			\$ 708,805

NOTE 4 – WATER SHARES

At June 30, 2005, the City had water shares recorded at \$3,119,511. The water shares are stated at cost. Utah State law allows the trading of water shares but precludes the sale or disposition of water shares or rights acquired or otherwise controlled by the City.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable of \$143,953 for all proprietary funds consists of \$143,292 in the Sewer and Water Fund and \$661 in the Golf Course Fund. During the year, accounts determined to be worthless and uncollectible are written off to bad debt expense. The City had no bad debt expense in the current year.

NOTE 6 – INTERGOVERNMENTAL RECEIVABLES

The City has \$123,817 of intergovernmental receivables at June 30, 2005 in the General Fund resulting from \$71,828 due in sales tax revenue, \$35,284 due in Class C Road Funds, and \$16,705 due in property taxes.

NOTE 7 – LONG-TERM DEBT

The legal general obligation debt limit for the City is \$29,251,337. The limit includes \$9,750,445 of general purpose debt and \$19,500,892 of debt for sewer and water. The City had no general obligation debt at June 30, 2005.

Individual Terms and Payment Schedules:

Revenue Bonds

	<u>Governmental</u>	<u>Business-type</u>
\$790,000 Lease Revenue Bonds due in annual installments on February 15 of \$30,000 to \$60,000. Interest at 5.25% to 5.40% is due in semi-annual payments on February 15 and August 15, secured by the building.	\$ 630,000	
\$390,000 Excise Road Tax Bonds due in annual installments on June 15 of \$30,000 to \$50,000. Interest at 5.90% to 6.05% due in semi-annual payments on June 15 and December 15.	224,000	
\$6,427,000 Lease Revenue Bonds due in annual installments beginning December 1, 2005, of \$250,000 to \$5,914,000. Interest at 4.75% to 5.10% is due in semi-annual payments on June 1 and December 1, secured by the revenues of the golf course.		\$ 6,427,000
Total Revenue Bonds	<u>854,000</u>	<u>6,427,000</u>

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Notes Payable	<u>Governmental</u>	<u>Business-type</u>
\$233,000 Zions Bank note payable due in quarterly installments of \$6,509 beginning July 15, 2000. Interest at 70% of prime is due quarterly, secured by 1/2 interest in water well and sewer project.		128,593
\$200,000 Zions Bank note payable due in quarterly installments of \$5,661 beginning April 1, 1999. Interest at 75% of prime is due quarterly, secured by 1/2 well interest in culinary water treatment system.		63,840
\$42,602 Zions Bank note payable, due in monthly installments of \$660 including interest at 3.65%, due November 2007, secured by the vehicles.		<u>7,812</u>
Total Notes Payable	<u>- 0 -</u>	<u>200,245</u>

Line of Credit

\$6,000,000 Zions Bank line of credit commencing June 1, 2004, due in annual principal payments on December 1 of \$158,609 to \$652,425 from 2004 to 2017. Interest at 75% of prime through 2007 and 110% of prime thereafter, with payments due June 1 and December 1, secured by the pressurized irrigation system.		<u>5,841,391</u>
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CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Capital Leases

	<u>Governmental</u>	<u>Business-type</u>
\$40,240 Citicapital capital lease, due in monthly installments of \$1,233 including interest at 4.99%, beginning August 1, 2004, secured by the equipment.		34,489
\$325,335 Textron Financial capital lease, due in monthly installments of \$6,243 including interest at 5.69%, beginning August 15, 2003, secured by the equipment.		206,163
\$243,576 Citicapital capital lease, due in monthly installments of \$6,840 including interest at 3.69%, beginning August 1, 2003, secured by the equipment.		175,829
Total Capital Leases	- 0 -	416,481
Total debt	<u>\$ 854,000</u>	<u>\$ 12,885,117</u>

Transactions for the year ended June 30, 2005 are summarized as follows:

	<u>Balance July 1, 2004</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance June 30, 2005</u>	<u>Due within one year</u>
Governmental Activities:					
Revenue Bonds	\$ 926,000		\$ 72,000	\$ 854,000	\$ 75,000
Total governmental activities	926,000		72,000	854,000	75,000
Business-Type Activities:					
Revenue Bonds	6,427,000			6,427,000	250,000
Notes Payable	263,227		62,982	200,245	38,388
Line of Credit	6,000,000		158,609	5,841,391	163,746
Capital Leases	477,387	\$ 40,240	101,146	416,481	123,354
Total business-type activities	13,167,614	40,240	322,737	12,885,117	575,488
Total government	<u>\$ 14,093,614</u>	<u>\$ 40,240</u>	<u>\$ 394,737</u>	<u>\$ 13,739,117</u>	<u>\$ 650,488</u>

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Revenue Bonds future debt service requirements:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 75,000	\$ 46,586	\$ 250,000	\$ 320,702
2007	82,000	42,351	263,000	308,189
2008	85,000	37,712	5,914,000	150,807
2009	87,000	32,895		
2010	85,000	27,938		
2011 - 2015	220,000	93,713		
2016 - 2020	220,000	29,663		
Total	<u>\$ 854,000</u>	<u>\$ 310,858</u>	<u>\$ 6,427,000</u>	<u>\$ 779,698</u>

Notes Payable future debt service requirements:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006			\$ 38,388	\$ 7,079
2007			46,178	6,463
2008			45,530	4,392
2009			23,345	2,693
2010			24,384	1,653
2011			22,420	530
Total	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 200,245</u>	<u>\$ 22,810</u>

Line of Credit future debt service requirements:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006			\$ 163,746	\$ 262,929
2007			169,050	257,625
2008			174,526	252,149
2009			428,319	239,356
2010			448,823	218,853
2011 - 2015			2,587,704	750,671
2016 - 2018			1,869,223	133,802
Total	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 5,841,391</u>	<u>\$ 2,115,385</u>

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 7 – LONG-TERM DEBT (CONTINUED)

The City entered into a capital lease agreement with Citicapital during July 2004 to purchase golf carts. The City financed the purchase over fifty-five months at a stated and effective rate of 4.99% interest. Monthly payments of \$1,233 are required August through January of each year through 2009 with a lump sum payment of \$9,000 due February 1, 2009. The lease is secured by the golf carts. The golf carts are recorded at \$40,240 with accumulated amortization of \$5,270.

The City entered into a capital lease agreement with Citicapital during July 2003 to purchase golf carts. The City financed the purchase over fifty-five months at a stated and effective rate of 3.69% interest. Monthly payments of \$6,840 are required August through January of each year through 2008 with a lump sum payment of \$64,800 due February 1, 2008. The lease is secured by the golf carts. The golf carts are recorded at \$243,576 with accumulated amortization of \$66,693.

The City entered into a capital lease agreement with Textron Financial Corporation during July 2003 to purchase maintenance equipment for the golf course. The City financed the purchase over sixty months at a stated rate of 5.69% and an effective rate of 5.84% interest. Monthly payments \$6,243 are required through July 2008. The lease is secured by the equipment. The maintenance equipment is recorded at \$325,335 with accumulated amortization of \$89,080.

Capital Leases future debt service requirements:

Year Ending June 30,	
2006	\$ 123,354
2007	123,354
2008	188,154
2009	<u>16,398</u>
Total minimum lease payments	451,260
Amount representing interest	<u>(34,779)</u>
Present value of minimum lease payments	416,481
Amount due within one year	<u>(123,354)</u>
Amount due after one year	<u><u>\$ 293,127</u></u>

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for these risks. Various policies are purchased through an insurance agency to cover liability, theft, damage, and other losses. A minimal deductible applies to these policies which the City pays in the event of any loss. There have been no significant reductions in the coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The City also has purchased a workers' compensation policy.

NOTE 9 – RESTRICTED NET ASSETS

The Restricted net assets of \$5,387,573 is comprised of \$311,154 of Class C Road money that has not been spent, \$4,576,025 of impact fees, and \$500,394 of unspent debt proceeds on the construction of the golf course.

NOTE 10 – RETIREMENT PLANS

The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (System). The System provides retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The System is established and governed by the respective sections of Chapter 49 of the *Utah Code Annotated* 1958 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. Chapter 49 places the System, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement System, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

The City is required to contribute 11.09% of eligible employees' earnings for the fiscal year to the noncontributory system. The contribution rates are actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City's contributions to the Noncontributory System for the years ending June 30, 2005, 2004, and 2003 were \$54,072, \$44,049, and \$32,682, respectively. The contributions were equal to the required contributions for each year.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 11 – DEFERRED COMPENSATION PLAN

The City of Cedar Hills offers its employees a deferred compensation plan created in accordance with *Internal Revenue Code* Section 457 and a 401(k) plan. The plans, available to all employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of the participants or their beneficiaries by Utah Retirement Systems. No contributions were made to the 457 plan during the fiscal year. For the years ended June 30, 2005, 2004, and 2003 the employees contributed \$1,250, \$350, and \$0, respectively to the 401(k) plan.

NOTE 12 – CONTINGENT LIABILITY

During fiscal year 2005 there were no asserted claims against the City. However, there may be potential unasserted claims in the future.

NOTE 13 – LESSEE LEASING ARRANGEMENTS

On June 10, 1997, the City entered into an agreement with Central Utah Water Conservancy District to lease 710 acre feet of municipal and industrial project water. The City received a 100 acre foot allotment during August 2002, August 2003, and two allotments in September 2003, for a total of 400 acre feet. The total cost of the water is \$2,620,795, financed at 3% interest, payable in 45 annual installments. The annual installment payment is determined at the current price per acre foot times the number allotted. The City is required to begin payment for all 710 acre feet by 2008.

The City entered into three agreements with GE Capital Modular Space during March 2003, July 2003, and November 2003 to lease a modular clubhouse and equipment. The March and November 2003 leases are on a month-to-month basis and require monthly payments of \$170 and \$180, respectively. The July 2003 lease requires monthly payments of \$1,751 for 60 months.

On June 1, 2003, the City entered into an agreement with Bank of the West to lease a cart barn and events tent. The lease agreement requires monthly payments of \$3,854 for 72 months.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 13 – LESSEE LEASING ARRANGEMENTS (CONTINUED)

The following is a schedule by year of future minimum lease payments required under operating lease agreements. All, except those noted above, have initial or remaining terms in excess of one year as of June 30, 2005:

Year Ended	
<u>June 30:</u>	
2006	\$ 106,250
2007	106,250
2008	106,250
2009	100,646
2010	58,247
2011 - 2015	291,235
2016 - 2020	291,235
2021 - 2025	291,235
2026 - 2030	291,235
2031 - 2035	291,235
2036 - 2040	291,235
2041 - 2045	291,235
2046 - 2047	116,464
Total	<u>\$ 2,632,752</u>

NOTE 14 – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following:

	<u>Transfer In</u>	<u>Transfer Out</u>
General fund	\$ 15,955	\$ 235,674
Capital projects fund	159,719	
Golf course fund	60,000	
Total	<u>\$ 235,674</u>	<u>\$ 235,674</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF CEDAR HILLS
Notes to Financial Statements
June 30, 2005

NOTE 15 – SUBSEQUENT EVENTS

In November 2005 the citizens of Cedar Hills voted to approve the issuance of general obligation bonds to refinance the golf course lease revenue bonds. The City will issue general obligation refunding bonds of approximately \$6,160,000. The proceeds will pay off the \$6,427,000 outstanding balance on the golf course lease revenue bonds. Payments on the general obligation bonds will begin in February 2007 through February 2035.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the accounting principles generally accepted in the United States of America, but are not considered a part of the financial statements. Such information includes:

Modified Approach – Asset Management System Reporting – Road Network

Budgetary Comparison Schedules – General Fund

CITY OF CEDAR HILLS
Required Supplementary Information
Modified Approach – Asset Management System

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the City has adopted an alternative method for reporting costs associated with certain infrastructure assets. Under this alternative method, referred to as the "modified approach," infrastructure assets are not depreciated, and maintenance and preservation costs are expensed. The City capitalizes costs related to new construction, major replacements, and improvements that increase the capacity and/or efficiency of infrastructure assets reported under the modified approach.

In order to utilize the modified approach, the City is required to:

Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.

Perform and document replicable condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale.

Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the City.

Document whether the infrastructure assets are being preserved approximately at, or above the condition level established by the City.

Road System

The condition of the City's 12.43 miles of road pavement is measured using the American Association of State and Highway and Transportation Officials (AASHTO) pavement management system, which is based on a weighted average of seven distress factors found in pavement surfaces. The pavement management system uses a measurement scale that is based on a condition index ranging from zero to 20 years remaining service life for pavement. The condition index is used to classify roads in the following remaining service life categories: 19 to 20 years, 13 to 18 years, 10 to 12 years, 7 to 9 years, and 0 to 6 years. It's the City's policy to maintain the roads with an average remaining service life of 9 years or greater. The initial condition assessment was performed in fiscal year 2004. The City's score based on the initial condition assessment was an average remaining service life of 9.96 years. Condition assessments are performed every three years.

This schedule only presents the information for fiscal years 2004 and 2005. Accounting standards generally accepted in the United States of America require reporting the last three complete condition assessments and needed-to-actual information for five years. However, the City implemented these new standards in fiscal year 2004, and did not collect the information for the prior years. The City will continue to collect and retain this information to facilitate, over a period of five years, the reporting of the required information.

CITY OF CEDAR HILLS
Required Supplementary Information
Subjective Condition Rating
Road Network
For the Year Ended June 30, 2005

Subjective Condition Rating of Road Network
Percentage of Network

0 to 6	22.53%
7 to 9	41.62%
10 to 12	22.08%
13 to 18	4.35%
19 to 21	9.42%
Total	<u>100.00%</u>

Average remaining service life	9.96
--------------------------------	------

Comparison of Needed-to-Actual
Road Network
Maintenance/Preservation

	<u>2005</u>	<u>2004</u>
Needed	\$ 72,436	\$ 26,531
Actual	\$ 113,634	\$ 95,301

CITY OF CEDAR HILLS
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Revenues (inflows)				
Taxes	\$ 948,666	\$ 948,666	\$ 1,053,292	\$ 104,626
License and permits	395,782	395,782	546,160	150,378
Intergovernmental	148,436	148,436	197,671	49,235
Charges for services	448,870	452,871	603,948	151,077
Other fees and services	23,656	23,656	34,371	10,715
Miscellaneous	153,500	153,500	34,143	(119,357)
Transfers in	15,000	15,000	15,955	955
Interest income	15,000	15,000	31,308	16,308
Total revenues	<u>2,148,910</u>	<u>2,152,911</u>	<u>2,516,848</u>	<u>363,937</u>
Expenditures (outflows)				
General government	1,293,103	1,433,461	1,412,839	20,622
Public safety	374,562	374,562	366,317	8,245
Parks and recreation	229,620	229,620	174,782	54,838
Debt service	52,600	52,600	52,555	45
Transfers out	199,025	268,025	267,987	38
Total expenditures	<u>2,148,910</u>	<u>2,358,268</u>	<u>2,274,480</u>	<u>83,788</u>
Excess (deficiency) of revenues over expenditures		(205,357)	242,368	<u>\$ 447,725</u>
Fund balance, beginning of year	<u>324,025</u>	<u>324,025</u>	<u>324,025</u>	
Fund balance, end of year	<u>\$ 324,025</u>	<u>\$ 118,668</u>	<u>\$ 566,393</u>	

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OTHER SUPPLEMENTARY INFORMATION

Other supplementary information includes financial statements and schedules not required by the accounting principles generally accepted in the United States of America, nor a part of the financial statements, but are presented for additional analysis.

Such statements and schedules include:

Individual Fund Financial Statements and Schedules

General Fund

Capital Projects Fund

Proprietary Funds

Additional Schedules

Schedule of Audit Findings

General Fund Property Tax Levies and Collections

Additional Auditors' Reports

Report on Internal Control over Financial Reporting and on Compliance
And Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Utah State Compliance Report Based on the Requirements,
Special Tests, and Provisions Required by the State of
Utah's Legal Compliance Guide.

GENERAL FUND

The general fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds.

**CITY OF CEDAR HILLS
GENERAL FUND
Balance Sheet**

June 30, 2005

With Comparative Totals for June 30, 2004

ASSETS

	2005	2004
Cash and cash equivalents, unrestricted	\$ 99,390	\$ 244,768
Cash and cash equivalents, restricted	311,154	
Deposits	62	62
Receivables		
Intergovernmental	123,817	127,039
Garbage billings	29,487	45,549
Other receivables	104,493	155,642
Total assets	<u>\$ 668,403</u>	<u>\$ 573,060</u>

LIABILITIES AND FUND BALANCE

Liabilities

Checks in excess of deposits		\$ 142,046
Accounts payable	\$ 52,117	57,878
Accrued salaries and benefits	31,304	49,111
Other payables	18,589	
Total liabilities	<u>102,010</u>	<u>249,035</u>

Fund Balance

Reserved		
Restricted - Class C Road	311,154	244,768
Unreserved	255,239	79,257
Total fund balance	<u>566,393</u>	<u>324,025</u>
Total liabilities and fund balance	<u>\$ 668,403</u>	<u>\$ 573,060</u>

CITY OF CEDAR HILLS
GENERAL FUND
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2005
With Comparative Totals for
the Year Ended June 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)	2004 Actual
Revenues				
Taxes				
Property taxes	\$ 428,696	\$ 416,703	\$ (11,993)	\$ 425,635
Delinquent taxes	58,037	48,163	(9,874)	64,205
Sales taxes	284,566	367,099	82,533	319,340
Franchise taxes	177,367	221,327	43,960	156,179
Total	948,666	1,053,292	104,626	965,359
Licenses and permits				
Building permits	378,844	527,828	148,984	502,710
Other licenses and permits	16,938	18,332	1,394	18,994
Total	395,782	546,160	150,378	521,704
Intergovernmental revenue				
Grant income		47,614	47,614	
Road fund allotments	146,951	150,057	3,106	178,699
Liquor fund allotments	1,485		(1,485)	1,312
Total	148,436	197,671	49,235	180,011
Fees				
Engineering inspection fees	40,000	75,849	35,849	35,652
Penalty fees	5,445	19,070	13,625	1,763
Application and processing fees	14,500	8,980	(5,520)	4,718
Plan check fees	167,128	251,029	83,901	228,185
Garbage fees	225,797	249,020	23,223	228,213
Rent				8,500
Total	452,870	603,948	151,078	507,031
Recreation and culture revenue				
Recreation and festival income	11,000	17,140	6,140	13,414
Recreation programs	12,656	17,231	4,575	5,751
Total	23,656	34,371	10,715	19,165
Miscellaneous revenues				
Interest earnings	15,000	31,308	16,308	19,006
Sale of surplus property and equipment	18,500		(18,500)	
Other revenue	135,000	34,143	(100,857)	49,470
Total	168,500	65,451	(103,049)	68,476
Total revenues	\$ 2,137,910	\$ 2,500,893	\$ 352,268	\$ 2,261,746

CITY OF CEDAR HILLS
GENERAL FUND
Statement Of Revenues, Expenditures, And Changes In
Fund Balance - Budget And Actual

For The Year Ended June 30, 2005

With Comparative Totals for

the Year Ended June 30, 2004

(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)	2004 Actual
Expenditures				
General government				
General government	\$ 217,732	\$ 221,151	\$ (3,419)	\$ 162,158
Mayor/council	23,130	16,766	6,364	21,604
Administrative services	192,266	176,056	16,210	184,331
City recorder	112,244	109,735	2,509	103,411
Building and zoning	199,208	195,523	3,685	162,449
Public works	219,481	217,717	1,764	178,245
Highway and streets	240,000	236,503	3,497	148,188
Solid waste	229,400	239,388	(9,988)	185,784
Total	<u>1,433,461</u>	<u>1,412,839</u>	<u>20,622</u>	<u>1,146,170</u>
Public safety				
Crossing guards	11,312	8,635	2,677	
Police department	263,500	249,416	14,084	140,016
Fire department	99,750	108,266	(8,516)	95,366
Total	<u>374,562</u>	<u>366,317</u>	<u>8,245</u>	<u>235,382</u>
Recreation and culture				
Library	15,000	14,983	17	12,408
Recreation	169,620	120,797	48,823	111,455
City celebrations	35,000	31,057	3,943	35,050
Other celebrations	10,000	7,945	2,055	7,988
Total	<u>229,620</u>	<u>174,782</u>	<u>54,838</u>	<u>166,901</u>
Debt service				
Principal	37,000	37,000		35,000
Interest	15,600	15,555	45	18,120
Total	<u>52,600</u>	<u>52,555</u>	<u>45</u>	<u>53,120</u>
Total expenditures	<u>2,090,243</u>	<u>2,006,493</u>	<u>83,750</u>	<u>1,601,573</u>
Excess of revenues over expenditures	<u>47,667</u>	<u>494,400</u>	<u>436,018</u>	<u>660,173</u>
Other financing sources (uses)				
Operating transfers in	15,000	15,955	955	34,250
Operating transfers out	(268,025)	(267,987)	38	(760,762)
Total other financing sources (uses)	<u>(253,025)</u>	<u>(252,032)</u>	<u>993</u>	<u>(726,512)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(205,358)</u>	<u>242,368</u>	<u>\$ 437,011</u>	<u>(66,339)</u>
Fund balance at beginning of year	<u>324,025</u>	<u>324,025</u>		<u>390,364</u>
Fund balance at end of year	<u>\$ 118,667</u>	<u>\$ 566,393</u>		<u>\$ 324,025</u>

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CAPITAL PROJECTS FUND

The capital projects fund is used to account for the financial resources to be used for the acquisition or construction of capital assets.

**CITY OF CEDAR HILLS
CAPITAL PROJECTS FUND**

Balance Sheet

June 30, 2005

With Comparative Totals for June 30, 2004

ASSETS

	2005	2004
Cash and cash equivalents	\$ 696,800	\$ 859,277
Restricted cash and cash equivalents		
Impact fees	3,847,256	3,292,913
Franchise fees	450,727	316,807
Construction fund	75,859	86,716
	<u>5,070,642</u>	<u>4,555,713</u>
Total assets	<u>\$ 5,070,642</u>	<u>\$ 4,555,713</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 63,667	\$ 286,700
Accrued liabilities		62,632
Total liabilities	<u>63,667</u>	<u>349,332</u>

Fund Balance

Reserved		
Restricted	3,923,095	3,379,629
Designated for capital assets	450,727	316,807
Unreserved	633,153	509,945
Total fund balance	<u>5,006,975</u>	<u>4,206,381</u>
Total liabilities and fund balance	<u>\$ 5,070,642</u>	<u>\$ 4,555,713</u>

CITY OF CEDAR HILLS
CAPITAL PROJECTS FUND
Statement Of Revenues, Expenditures, And
Changes In Fund Balance - Budget And Actual
For The Year Ended June 30, 2005
With Comparative Totals for
the Year Ended June 20, 2004

	Budget	Actual	Variance Favorable (Unfavorable)	2004 Actual
Revenues				
Impact fees - parks development	\$ 226,400	\$ 282,350	\$ 55,950	\$ 309,080
Impact fees - park land	183,200	414,468	231,268	316,300
Impact fees - recreation	328,000	406,927	78,927	448,164
Impact fees - public safety	91,400	120,902	29,502	134,698
Impact fees - streets	128,200	203,128	74,928	214,546
Interest earnings	57,146	101,247	44,101	56,304
Franchise fees	93,858		(93,858)	
Developer contributions		62,632	62,632	
Total revenues	<u>1,108,204</u>	<u>1,591,654</u>	<u>483,450</u>	<u>1,479,092</u>
Expenditures				
General and administrative				18,409
Capital equipment acquisitions				8,739
Capital facilities acquisitions	905,000		905,000	
Highways and streets	315,000	131,994	183,006	395,037
Parks and recreation	2,442,000	753,584	1,688,416	495,716
Debt service				
Principal	35,000	35,000		35,000
Interest	35,070	30,201	4,869	38,479
Total expenditures	<u>3,732,070</u>	<u>950,779</u>	<u>2,781,291</u>	<u>991,380</u>
Excess (deficiency) of revenues over expenditures	<u>(2,623,866)</u>	<u>640,875</u>	<u>3,264,741</u>	<u>487,712</u>
Other financing sources (uses)				
Proceeds from debt	850,000		(850,000)	
Operating transfers in	1,499,448	159,719	(1,339,729)	695,967
Operating transfers out	(400,581)		400,581	(1,455,630)
Total other financing sources (uses)	<u>1,948,867</u>	<u>159,719</u>	<u>(1,789,148)</u>	<u>(759,663)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(674,999)</u>	<u>800,594</u>	<u>\$ 403,048</u>	<u>(271,951)</u>
Fund balance at beginning of year	<u>4,206,381</u>	<u>4,206,381</u>		<u>4,478,332</u>
Fund balance at end of year	<u>\$ 3,531,382</u>	<u>\$ 5,006,975</u>		<u>\$ 4,206,381</u>

PROPRIETARY FUNDS

The proprietary funds are used to account for the business-like activities of the City.

**CITY OF CEDAR HILLS
SEWER AND WATER FUND
Statement of Net Assets**

June 30, 2005

With Comparative Totals for June 30, 2004

ASSETS

	<u>2005</u>	<u>2004</u>
Current assets		
Cash and cash equivalents	\$ 371,028	\$ 1,074,143
Accounts receivable	143,292	122,762
Total current assets	<u>514,320</u>	<u>1,196,905</u>
Capital assets		
Water improvements	14,577,480	14,426,244
Sewer improvements	8,613,976	8,097,077
Less: accumulated depreciation	<u>(2,610,482)</u>	<u>(2,144,830)</u>
Net capital assets	<u>20,580,974</u>	<u>20,378,491</u>
Water stock	<u>3,119,511</u>	<u>2,881,761</u>
Other noncurrent assets		
Bond costs	70,293	70,293
Less: accumulated amortization	(10,460)	(5,439)
Restricted cash and cash equivalents	793,664	448,679
Total noncurrent assets	<u>853,497</u>	<u>513,533</u>
Total assets	<u><u>\$ 25,068,302</u></u>	<u><u>\$ 24,970,690</u></u>

**CITY OF CEDAR HILLS
SEWER AND WATER FUND
Statement of Net Assets**

June 30, 2005

With Comparative Totals for June 30, 2004

(Continued)

LIABILITIES

	2005	2004
Current liabilities		
Accounts payable	\$ 155,613	\$ 122,834
Accrued interest payable	24,101	24,174
Refundable deposits	895,009	771,512
Development agreements payable	637,361	957,992
Current portion of long-term debt	198,448	200,521
Total current liabilities	<u>1,910,532</u>	<u>2,077,033</u>
Noncurrent liabilities		
Notes payable	6,033,824	6,237,288
Less: current portion	(198,448)	(200,521)
Total noncurrent liabilities	<u>5,835,376</u>	<u>6,036,767</u>
Total liabilities	<u>\$ 7,745,908</u>	<u>\$ 8,113,800</u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 14,606,983	\$ 14,206,056
Restricted - capital assets	652,930	324,970
Unrestricted	2,062,481	2,325,864
Total net assets	<u>\$ 17,322,394</u>	<u>\$ 16,856,890</u>

CITY OF CEDAR HILLS
SEWER AND WATER FUND
Statement of Revenues, Expenses,
and Changes in Fund Net Assets - Budget and Actual

For the Year Ended June 30, 2005

With Comparative Totals for
the Year Ended June 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)	2004 Actual
Operating revenues				
Water charges	\$ 789,892	\$ 808,817	\$ 18,925	\$ 631,129
Sewer charges	436,543	544,561	108,018	424,510
Total operating revenues	1,226,435	1,353,378	126,943	1,055,639
Operating expenses				
Salaries, wages and employee benefits	273,188	287,780	(14,592)	240,334
Supplies and maintenance	183,704	44,898	138,806	71,177
Utilities and telephone	78,181	104,528	(26,347)	89,273
Professional and technical	14,714	34,591	(19,877)	9,700
Timpanogos Special Service District fees	208,819	169,764	39,055	117,777
Water purchases	16,841	28,871	(12,030)	87,666
Depreciation and amortization		470,674	(470,674)	451,857
Capital asset acquisitions	1,418,404		1,418,404	
Total operating expenses	2,193,851	1,141,106	(365,659)	1,067,784
Operating income (loss)	(967,416)	212,272	(238,716)	(12,145)
Non-operating income (expense)				
Interest income	6,000	14,452	8,452	5,847
Interest expense		(224,704)	(224,704)	(138,640)
Total non-operating income (expense)	6,000	(210,252)	(216,252)	(132,793)
Income (loss) before capital contributions and operating transfers	(961,416)	2,020	(454,968)	(144,938)
Capital contributions				
Impact fees	251,123	348,311	97,188	320,759
Developers		172,161	172,161	114,946
Impact fees collected for Timpanogos Special Service District	554,327	634,880	80,553	710,966
Impact fees remitted to Timpanogos Special Service District	(576,327)	(634,880)	(58,553)	(687,129)
Total capital contributions	229,123	520,472	291,349	459,542
Operating transfers				
Transfers in	67,052		(67,052)	
Transfers out	(95,951)	(56,988)	38,963	(57,209)
Net operating transfers	(28,899)	(56,988)	(28,089)	(57,209)
Net income (loss)	(761,192)	465,504	\$ (124,656)	257,395
Net assets at beginning of year	16,856,890	16,856,890		16,599,495
Net assets at end of year	\$ 15,534,730	\$ 17,322,394		\$ 16,856,890

BUDGET NUMBERS ARE REPORTED ON A CASH BASIS.

**CITY OF CEDAR HILLS
GOLF COURSE FUND
Statement of Net Assets**

June 30, 2005

With Comparative Totals for June 30, 2004

ASSETS

	2005	2004
Current assets		
Accounts receivable	\$ 661	\$ 16,295
Total current assets	<u>661</u>	<u>16,295</u>
Capital assets		
Land	3,379,399	3,379,399
Golf course improvements	8,124,156	8,083,916
Less: accumulated depreciation	(447,285)	(210,442)
Net property and equipment	<u>11,056,270</u>	<u>11,252,873</u>
Restricted cash and cash equivalents	<u>500,394</u>	<u>739,852</u>
Total assets	<u><u>\$ 11,557,325</u></u>	<u><u>\$ 12,009,020</u></u>

LIABILITIES

Current liabilities		
Outstanding checks in excess of deposits	\$ 348,027	\$ 209,765
Accrued interest payable	27,904	27,866
Accounts payable	21,331	17,688
Current portion of long-term debt	373,354	90,154
Total current liabilities	<u>770,616</u>	<u>345,473</u>
Noncurrent liabilities		
Notes payable	416,481	477,387
Bonds payable	6,427,000	6,427,000
Less: current portion	(373,354)	(90,154)
Total noncurrent liabilities	<u>6,470,127</u>	<u>6,814,233</u>
Total liabilities	<u><u>\$ 7,240,743</u></u>	<u><u>\$ 7,159,706</u></u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 4,713,183	\$ 5,088,339
Restricted - debt service	500,394	739,852
Unreserved	(896,995)	(978,877)
Total net assets	<u><u>\$ 4,316,582</u></u>	<u><u>\$ 4,849,314</u></u>

CITY OF CEDAR HILLS
GOLF COURSE FUND
Statement of Revenues, Expenses,
and Changes in Fund Net Assets - Budget And Actual
For the Year Ended June 30, 2005
With Comparative Totals for
the Year Ended June 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)	2004 Actual
Operating revenues				
Golf revenue	\$ 931,989	\$ 596,570	\$ (335,419)	\$ 544,126
Other operating revenues	57,511	114,193	56,682	38,780
Total operating revenues	<u>989,500</u>	<u>710,763</u>	<u>(278,737)</u>	<u>582,906</u>
Operating expenses				
Salaries, wages and employee benefits	287,891	261,284	26,607	288,031
General and administrative	72,600	157,086	(84,486)	115,544
Supplies and maintenance	230,272	241,643	(11,371)	135,202
Lease expense	244,445	73,741	170,704	65,127
Depreciation		236,843	(236,843)	210,442
Total operating expenses	<u>835,208</u>	<u>970,597</u>	<u>(135,389)</u>	<u>814,346</u>
Operating loss	<u>154,292</u>	<u>(259,834)</u>	<u>(414,126)</u>	<u>(231,440)</u>
Non-operating income (expense)				
Interest income		15,998	15,998	19,300
Interest expense	(254,292)	(348,896)	(94,604)	(311,701)
Proceeds from debt	10,000		(10,000)	
Total non-operating income (expense)	<u>(244,292)</u>	<u>(332,898)</u>	<u>(78,606)</u>	<u>(292,401)</u>
Loss before capital contributions and operating transfers	<u>(90,000)</u>	<u>(592,732)</u>	<u>(492,732)</u>	<u>(523,841)</u>
Capital contributions				5,373,155
Operating transfer in	60,000	60,000		
Net income (loss)	(30,000)	(532,732)	<u>\$ (492,732)</u>	4,849,314
Net assets at beginning of year	<u>4,849,314</u>	<u>4,849,314</u>		<u>- 0 -</u>
Net assets at end of year	<u>\$ 4,819,314</u>	<u>\$ 4,316,582</u>		<u>\$ 4,849,314</u>

BUDGET NUMBERS ARE REPORTED ON A CASH BASIS.

CITY OF CEDAR HILLS
MOTOR POOL FUND
Statement of Net Assets

June 30, 2005

With Comparative Totals for June 30, 2004

ASSETS

	2005	2004
Capital assets		
Vehicles	\$ 173,788	\$ 154,014
Less: accumulated depreciation	(56,931)	(36,993)
Net capital assets	<u>\$ 116,857</u>	<u>\$ 117,021</u>

LIABILITIES

Current liabilities		
Outstanding checks in excess of deposits		\$ 11,720
Current portion of long-term debt	\$ 3,686	8,900
Total current liabilities	<u>3,686</u>	<u>20,620</u>
Noncurrent liabilities		
Notes payable	7,812	30,719
Less: current portion	(3,686)	(8,900)
Total noncurrent liabilities	<u>4,126</u>	<u>21,819</u>
Total liabilities	<u>\$ 7,812</u>	<u>\$ 42,439</u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 109,045	\$ 86,302
Unrestricted		(11,720)
Total net assets	<u>\$ 109,045</u>	<u>\$ 74,582</u>

CITY OF CEDAR HILLS
MOTOR POOL FUND
Statement of Revenues, Expenses,
and Changes in Fund Assets - Budget and Actual

For the Year Ended June 30, 2005

With Comparative Totals for
the Year Ended June 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)	2004 Actual
Operating revenue, vehicles	\$ 77,704	\$ 89,301	\$ 11,597	\$ 88,860
Operating expenses				
Vehicle maintenance	95,705	29,921	65,784	23,381
Depreciation		27,591	(27,591)	23,738
Total operating expenses	<u>95,705</u>	<u>57,512</u>	<u>38,193</u>	<u>47,119</u>
Operating income (loss)	<u>(18,001)</u>	<u>31,789</u>	<u>49,790</u>	<u>41,741</u>
Non-operating income (expense)				
Interest expense		(254)	(254)	(2,401)
Gain on sale of capital assets		2,928	2,928	(3,311)
Total non-operating income (expense)		<u>2,674</u>	<u>2,674</u>	<u>(5,712)</u>
Net income (loss)	(18,001)	34,463	<u>\$ 52,464</u>	36,029
Net assets at beginning of year	<u>74,582</u>	<u>74,582</u>		<u>38,553</u>
Net assets at end of year	<u>\$ 56,581</u>	<u>\$ 109,045</u>		<u>\$ 74,582</u>

BUDGET NUMBERS ARE REPORTED ON A CASH BASIS.

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ADDITIONAL SCHEDULES

These schedules are included to provide additional information for analysis.

CITY OF CEDAR HILLS
Schedule of Audit Findings
June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City.
2. There were two reportable conditions, as described in findings 2005-1 and 2005-2, relating to the audit of the financial statements as reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. There were no instances of noncompliance required to be reported under *Government Auditing Standards*.

B. FINDINGS – FINANCIAL AUDIT CURRENT YEAR

2005-1 Finding – Recording of accounting transactions

During the audit we found that some accounting transactions were not being recorded properly or consistent with generally accepted accounting principles. For example, the detail accounts payable and utility billing ledgers were not reconciled to the general ledger reports, some engineering inspection fees were not recorded in the proper period and some expenses were being posted to income accounts. These errors result in inaccurate financial information used by the Council and management.

Recommendation

We recommend management reconcile all general ledger balance sheet accounts to monthly statements or detail ledgers and management review the transactions for correct period and account posting. Postings to the accounts should be reviewed prior to the monthly closing.

City's Response

We agree with the finding and will implement the recommendation.

2005-2 Finding – Classification of expenses

During the audit we noted some expenses were being posted to the contingency account rather than the proper expenditure account. Items that were not included in the budget for the expenditure category were classified as contingency to offset the contingency budget item.

Recommendation

Contingency is a budget item only to earmark budget dollars for unanticipated expenditures. The City should classify the expenditures in the proper category and then amend the budget and move the contingency to the proper category.

City's Response

We agree with the finding and will implement the recommendation.

C. CURRENT YEAR STATUS OF PRIOR YEAR FINDINGS

2004-1 Finding – Recording of accounting transactions

During the audit we found some accounting transactions were not being recorded consistent with generally accepted accounting principles. For example, operating transfers between funds and adjustments to equity were not being recorded properly.

Status

See current year finding 2005-1

2004-2 Finding – Recording of accounts payable

During the audit we found errors in the recording of the accounts payable. The expense was recorded in the correct funds, but the corresponding liability was only recorded in the General Fund. As a result, the cash allocated to each fund was incorrect and the accounts payable liability in each fund was incorrect. We also found the detail accounts payable did not tie to the general ledger.

Status

This finding has been corrected.

2004-3 Finding – Outstanding checks

During the audit we found that many of the outstanding checks were over a year old.

Status

This finding has been corrected.

2004-4 Finding – Journal entries

During the audit we found that many journal entries made to the general ledger did not have backup documentation supporting the entry.

Status

This finding has been corrected.

2004-5 Finding – Fund Accounting

During the audit we found that the business-type funds were being accounted for as governmental funds. For example, in the business-type funds the debt payments were being expensed instead of decreasing the corresponding liability. The capital asset acquisitions were being expensed rather than recording them on the statement of net assets.

Status

This finding has been corrected.

CITY OF CEDAR HILLS
General Fund Property Tax Levies and Collections

<u>Year End 12/31</u>	<u>Total Taxes Assessed</u>	<u>Current Collections</u>	<u>Delinquent Collections</u>	<u>Total Collected</u>	<u>Percentage of Current Collections to Total Taxes Assessed</u>	<u>Percentage of Total Collections to Total Taxes Assessed</u>
2004	\$ 414,394	\$ 360,112	\$ 62,539	\$ 422,651	86.9%	102.0%
2003	411,891	365,557	57,270	422,827	88.8%	102.7%
2002	391,708	322,767	23,480	346,247	82.4%	88.4%
2001	218,579	196,227	21,488	217,715	89.8%	99.6%
2000	175,302	150,409	21,975	172,384	85.8%	98.3%

ADDITIONAL AUDITORS' REPORTS

These additional reports are required by *Government Auditing Standards* and the Utah State Auditor's Office, respectively.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor
and Members of the City Council
City of Cedar Hills

We have audited the financial statements of the City of Cedar Hills as of and for the year ended June 30, 2005 and have issued our report thereon dated October 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Cedar Hill's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Audit Findings as findings 2005-1 and 2005-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions referred to above are material weaknesses.

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COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Cedar Hill's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor and City Council, management, and the Utah State Auditor's office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

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CERTIFIED PUBLIC ACCOUNTANTS

October 3, 2005



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UTAH STATE COMPLIANCE REPORT BASED ON THE REQUIREMENTS, SPECIAL TESTS, AND PROVISIONS REQUIRED BY THE STATE OF UTAH'S LEGAL COMPLIANCE AUDIT GUIDE

To the Honorable Mayor
and Members of the City Council
City of Cedar Hills

We have audited the financial statements of the City of Cedar Hills for the year ended June 30, 2005, and have issued our report thereon dated October 3, 2005. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or disallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major state assistance program from the State of Utah:

Class "C" Road (Department of Transportation)

The City did not receive any non-major state grants during the year.

Our audit also included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other General Compliance Issues
Uniform Building Code Standards
Impact Fees
Asset Forfeiture

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The management of the City of Cedar Hills is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed one immaterial instance of noncompliance with the requirements referred to above which is described below. We considered this instance of noncompliance in forming our opinion on compliance, which is expressed in the second to last paragraph of this report.

A. CURRENT YEAR IMMATERIAL INSTANCES OF NONCOMPLIANCE

Finding

State law requires officers and employees not to incur expenditures in excess of the total appropriated budget. There were a few departments that expenditures exceeded the budget.

Recommendation

We recommend the City monitor the budget and amend it as necessary to comply with state law. All departments should closely monitor their budgets throughout the year.

City's Response

We agree with the finding and will implement the recommendation.

B. CURRENT STATUS OF PRIOR YEAR IMMATERIAL INSTANCES OF NONCOMPLIANCE

Finding

Actual expenditures exceeded the budgeted expenditures.

Status

See current year finding.

In our opinion, the City complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major state assistance program for the year ended June 30, 2005.

This report is intended for the information of the Mayor and City Council, management, and the Utah State Auditor's office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

October 3, 2005

